

Message Text

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ACTION EB-07

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DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 AID-05

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TAGS: ETRD, EAIR, XMB, BTTO, BG, US,

SUBJ: REQUEST FOR EXIM FINANCING OF BOEING AIRCRAFT

REF: DACCA 3682

SUMMARY: WE RECOMMEND EXIM BANK CONSIDER BDG REQUEST FOR CREDIT
TOWARD PURCHASE OF NEW BOEING 707. END SUMMARY.

1. DURING AUGUST 5 MEETING WITH AMBASSADOR AND ECON COUNSELOR,
FINANCE SECRETARY SYEDUZZAMAN REQUESTED EXIM BANK CREDIT TO ENABLE
BDG TO PURCHASE TWO BOEING 707 AIRCRAFT, ONE OF WHICH WOULD BE
USED PRIMARILY TO AIRFREIGHT BANGLADESH EXPORTS, INCLUDING FRUITS
AND VEGETABLES, TO MID-EAST BUYERS. THE PURCHASE OF THIS BOEING
WAS CRITICALLY IMPORTANT IF BANGLADESH WAS TO TAKE ADVANTAGE OF
EXPORT OPPORTUNITIES IN THE MIDDLE EAST, SECRETARY SAID. THE
SECOND BOEING WOULD BE USED FOR PASSENGER SERVICE, PRESUMABLY
TO ENABLE BANGLADESH BIMAN EXTEND ITS PRESENT ROUTES.

2. FINANCE SECRETARY IMPLIED THAT APPROACH TO EXIM BANK BY
BANGLADESH EMBASSY IN WASHINGTON HAD RECEIVED NEGATIVE RESPONSE. HE
NOTED THAT BDG HAD BEGUN REPAYING ITS PRE-INDEPENDENCE DEBT TO EXIM
BANK, THEREBY REMOVING THAT BAR TO NEW EXIM BANK LENDING TO BNAGLADES
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3. BACKGROUND. THERE HAS BEEN NO EXIM BANK LENDING TO BANGLADESH SINCE INDEPENDENCE IN 1971. AN IMPORTANT REASON HAS BEEN, WE UNDERSTAND, THAT BANGLADESH ENJOYS TOO POOR A CREDIT STANDING. IT IS AN "AID COUNTRY," NOT A SUITABLE BORROWER FOR EXIM LENDING. AN IMMEDIATE BAR TO EXIM LENDING HAD BEEN THE BANGLADESH FAILURE TO ASSUME PRE-WAR OBLIGATION TO THE EXIM BANK, AS PART OF A GENERAL DIVISION WITH PAKISTAN OF ALL OFFICIAL DEBTS TO THE USG. THIS HAS NOW BEEN ACCOMPLISHED, AS THE SECRETARY NOTED, AND THE FIRST PAYMENTS MADE. A THIRD FACTOR HAS BEEN THAT KNOWING IT WOULD BE FOUND INELIGIBLE UNTIL IT ASSUMED EXIM DEBTS, BANGLADESH DID NOT SEEK SUCH FINANCING.

4. THE PAST MONTH, HOWEVER, HAS BROUGHT TWO POSSIBLE OPPORTUNITIES FOR EXIM BANK LENDING FOR SALES TO BANGLADESH. FIRST, HELICOPTERS (DACCA 3316), AND NOW, A NEW BOEING 707. WE BELIEVE IT TIME TO REEXAMINE THE BANGLADESH CASE, AND SPECIFICALLY ITS CREDIT POSITION, TO SEE IF IT MIGHT QUALIFY FOR EXIM FINANCING.

5. BANGLADESH IS HEAVILY DEPENDENT ON FOREIGN AID, WHICH AT PRESENT FINANCES TWO-THIRDS TO THREE-QUARTERS OF ITS IMPORTS ANNUALLY. DONORS, INCLUDING THE USG, STRESSED AT THE MAY, 1976 BANGLADESH AID GROUP MEETING, THE IMPORTANCE OF INCREASING EXPORT EARNINGS AND THE BDG HAS TAKEN SOME STEPS TO DO SO (DACCA 3399). SUCH INCREASES IN EXPORTS, AS THOSE TO BE MADE POSSIBLE BY AIRFKVOREI GHT SHIPMENTS TO MID-EAST, WOULD ALSO IMPROVE BDG ABILITY REPAY USG LOANS. HOWEVER, THERE IS NO SHORT-TERM PROSPECT OF ENDING THIS DEPENDENCE ON AID FLOWS. ON THE OTHER HAND, THERE IS NO SHORT-TERM PROSPECT OF DN END TO AID FLOWS, WHICH NOW REACH BANGLADESH FROM VIRTUALLY EVERY DONOR ON EARTH.

6. BDG OFFICIALS ARE FULLY AWARE OF THE IMPORTANCE OF MAINTIANING AN INTERNATIONAL CREDIT STANDING. BANGLADESH HAS MET EVERY POST-INDEPENDENCE FOREIGN FINANCIAL COMMITMENT WHEN DUE, AND OVER PAST EIGHTEEN MONTHS, HAS IMPROVED ITS ABILITY TO CONTINUE DOING SO. THE BANGLADESH (CENTRAL) BANK HAS ESTABLISHED, WITH IMF ENCOURAGEMENT, A MONITORING SYSTEM FOR EXPORT BILLS AND LETTERS OF CREDIT TO ENSURE FULL CONTROL OVER PAYMENT FLOWS. THE BANK'S POLICY IS TO MAINTAIN FOREIGN EXCHANGE RESERVES AT OVER \$200 MILLION MARK, AND LIMITED OFFICIAL USE

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GRADUALLY INCREASE THEM TO \$300 MILLION, ABOUT THREE MONTH'S WORTH OF IMPORTS.

7. WITHOUT SOME FINANCING ARRANGEMENT, BANGLADESH WILL NOT BUY A NEW BOEING, AND HENCE A US EXPORT SALE WILL BE LOST. IT IS POSSIBLE THAT, AS WAS TRIED EARLIER (DACCA 3583), BANGKADESH BIMAN (BB) MIGHT BUY A USED 707, BUT SUCH A PURCHASE (SAY, FROM THE UK) WOULD PROBABLY NOT BE AN EXPORT SALE FOR THE US.

8. BANGLADESH BIMAN LOST AN ESTIMATED \$2.7 MILLION (EQUIVALENT) IN 1975/76 AND IS PROJECTED TO OPERATE AT A LOSS OF HALF THAT AMOUNT IN 1976/77, BUT THESE OVERALL FIGURES REFLECT THE OPERATING RESULTS OF BOTH DOMESTIC AND INTERNATIONAL OPERATIONS. BB IS A NET FOREIGN EXCHANGE EARNER. THE BDG WOULD GUARANTEE ANY DEBT INCURRED FOR AIRCRAFT PURCHASE BY BB. ABOUT \$4 MILLION WAS BUDGETED IN 1975/76 (REVISED ESTIMATES) FOR THE PURCHASE OF A SECOND (USED) BOEING.

9. POLITICAL STABILITY. POLITICAL SITUATION REMAINS FRAGILE AND OUT-LOOK UNCERTAIN, BUT IT IS UNLIKELY THAT ANY FURTHER CHANGE OF GOVERNMENT WILL REVERSE ABOVE FINANCIAL AND FOREIGN EXCHANGE POLICIES WHICH CONTINUED UNALTERED THROUGH SEVERAL VIOLENT CHANGES OF GOVERNMENT IN 1975.

10. DESPITE POLITICAL UNCERTAINTY, AND A WEAK BALANCE OF PAYMENTS POSITION, BANGLADESH IS MEETING ITS FOREIGN EXCHANGE OBLIGATIONS ON SCHEDULE. WE BELIEVE IT WILL CONTINUE TO DO SO, ABOVE ALL, BECAUSE ITS SELF-INTEREST REQUIRES THE MAINTENANCE OF ITS INTERNATIONAL CREDIT STANDING.

11. RECOMMENDATION: WE RECOMMEND A MODEST EXIM EXPOSURE IN BANGLADESH WITH A LOAN TO FINANCE A PART OF THE PURCHASE OF A NEW BOEING 707, THEREBY ASSURE A US EXPORT SALE.
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